

**REPORT OF THE AUDIT OF THE  
FAYETTE COUNTY  
PROPERTY VALUATION ADMINISTRATOR**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FAYETTE COUNTY PROPERTY VALUATION ADMINISTRATOR**

**For The Fiscal Year Ended  
June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Fayette County Property Valuation Administrator (PVA) for the fiscal year ended June 30, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the respective financial position of the governmental activities and major fund of the Fayette County PVA in conformity with the cash basis of accounting.

#### **Report Comments:**

- The PVA Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The PVA Should Require All Employees To Maintain Timesheets
- The PVA Should Expend Monies For Allowable Expenditures Only

#### **Deposits:**

The PVA's deposits were not insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Robbie Rudolph, Secretary, Finance and Administration Cabinet  
The Honorable Renee True  
Fayette County Property Valuation Administrator  
Lexington, KY 40507

Independent Auditor's Report

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Property Valuation Administrator (PVA) of Fayette County, Kentucky, for the fiscal year ended June 30, 2005, which collectively comprise the PVA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the PVA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the PVA prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Fayette County PVA for the fiscal year ended June 30, 2005, in conformity with the cash basis of accounting described in Note 1.

The PVA has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2005 on our consideration of the PVA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Robbie Rudolph, Secretary, Finance and Administration Cabinet  
The Honorable Renee True, Fayette County Property Valuation Administrator

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The PVA Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The PVA Should Expend Monies For Allowable Expenditures Only
- The PVA Should Require All Employees To Maintain Timesheets

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2005



FAYETTE COUNTY  
 RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
 STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUNDS BALANCE SHEET – CASH BASIS

June 30, 2005

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets - Governmental Activities</b>
<b>Assets</b>			
Cash	\$ 115,959	\$ 0	\$ 115,959
Total Assets	<u>115,959</u>	<u>\$ 0</u>	<u>115,959</u>
 <b>Fund Balance/Net Assets</b>			
Fund balance:			
Unreserved	\$ 115,959	\$ (115,959)	\$ 0
Total Fund Balance	<u>\$ 115,959</u>	<u>\$ (115,959)</u>	<u>\$ 0</u>
Net Assets:			
Unrestricted			<u>115,959</u>
Total Net Assets			<u><u>\$ 115,959</u></u>

The accompanying notes are an integral part of this financial statement.

FAYETTE COUNTY  
 RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE - CASH BASIS

For the Fiscal Year Ended June 30, 2005

	<b>General Fund</b>	<b>Adjustments (Note 4)</b>	<b>Statement of Activities - Governmental Activities</b>
<b><u>Revenues</u></b>			
Lexington Fayette Urban County Government:			
FYE June 30, 2005 - Statutory Contribution	\$ 220,000		\$ 220,000
FYE June 30, 2004 - Remaining Balance	88,780		88,780
Other Revenues:			
Parcel Data	8,969		8,969
Miscellaneous	4,795		4,795
Interest Earned	2,677		2,677
Total Revenues	<u>\$ 325,221</u>	<u>\$ 0</u>	<u>\$ 325,221</u>
<b><u>Expenditures/Expenses</u></b>			
Kentucky State Treasurer - Personnel Cost	\$ 99,968		\$ 99,968
Educational Expenses	5,201		5,201
Automobile Insurance	1,943		1,943
Professional Computer Services	6,617		6,617
Professional Contract Services	20,165		20,165
Maintenance of Buildings	375		375
Maintenance of Equipment	906		906
Copy Machine Maintenance	1,039		1,039
Computer Maintenance	1,219		1,219
Maintenance of Vehicles	1,356		1,356
Postage and Postage Meters	17,178		17,178
Printing Paid to Vendor	4,046		4,046
Advertising	1,751		1,751
Other Services	2,124		2,124
Telephone Services	6,519		6,519
Computer Updates	2,027		2,027
Office Supplies	15,858		15,858
Janitorial/Maintenance Supplies	507		507
Motor Fuels	4,028		4,028
Furniture/Fixtures under \$500	4,224		4,224
Books	1,406		1,406
Telephone Equipment	370		370
In-State Travel	3,092		3,092

The accompanying notes are an integral part of this financial statement.

FAYETTE COUNTY  
 RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
 STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE - CASH BASIS  
 For the Fiscal Year Ended June 30, 2005  
 (Continued)

	General Fund	Adjustments (Note 4)	Statement of Activities - Governmental Activities
<b><u>Expenditures/Expenses (Continued)</u></b>			
Out-of-State Travel	\$ 1,977		\$ 1,977
Dues/Subscriptions	3,830		3,830
Furniture/Fixtures over \$500	10,434		10,434
Computer Equipment	7,575		7,575
Total Expenditures/Expenses	<u>\$ 225,735</u>	<u>\$ 0</u>	<u>\$ 225,735</u>
Excess Of Revenues Over Expenditures	\$ 99,486		
Change in Net Assets			\$ 99,486
Fund Balance/Net Assets:			
Beginning of the Year	16,473		16,473
End of the Year	<u>\$ 115,959</u>	<u>\$ 0</u>	<u>\$ 115,959</u>

The accompanying notes are an integral part of this financial statement.

FAYETTE COUNTY  
 RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS

For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
<u>Revenues</u>				
Lexington Fayette Urban Co Government:				
FYE June 30, 2005 - Statutory Contribution	\$ 220,000	\$ 220,000	\$ 220,000	\$
FYE June 30, 2004 - Remaining Balance		89,885	88,780	(1,105)
Other Revenues:				
Parcel Data			8,969	8,969
Miscellaneous	1,700	13,454	4,795	(8,659)
Interest Earned	400	2,645	2,677	32
Total Revenues	<u>\$ 222,100</u>	<u>\$ 325,984</u>	<u>\$ 325,221</u>	<u>\$ (763)</u>
<u>Expenditures</u>				
Other Account Expense	\$ 147,825	\$ 180,609	\$ 133,894	\$ (46,715)
Other Services	34,500	45,225	38,540	(6,685)
Commodities/Other Expenses	37,775	39,750	35,292	(4,458)
Capital Outlay	2,000	60,400	18,009	(42,391)
Total Expenditures	<u>\$ 222,100</u>	<u>\$ 325,984</u>	<u>\$ 225,735</u>	<u>\$ (100,249)</u>
Excess of Revenues Over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 99,486</u>	<u>\$ 99,486</u>

The accompanying notes are an integral part of this financial statement.

FAYETTE COUNTY  
NOTES TO FINANCIAL STATEMENT

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Fund Accounting

Officials use a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Officials utilize a fund for statutory contributions and other financial activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

Basis of Accounting

The financial statements have been prepared on the basis of cash receipts and disbursements. Revenues and related assets are recognized when received rather than when earned. Expenditures are recognized when paid rather than when a liability is incurred, including capital asset purchases. Capital assets and their corresponding depreciation expense are not capitalized and expended at the government-wide level. Long-term debt is also not included on the Statement of Net Assets.

The measurement focus of PVAs is upon current financial resources.

Due to the PVA being a single-purpose government the government-wide and fund financial statements have been combined.

Cash and Investments

Cash includes amounts in bank accounts.

KRS 66.480 authorizes the PVA to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities; obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States; obligations of any corporation of the United States government; bonds or certificates of indebtedness of this state; and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Governmental Fund

The general fund is the operating fund of the PVA used to account for all financial resources. These funds are controlled by the elected PVA for use in operating the PVA office. The PVA is fully responsible for management of the PVA funds and subject to the restrictions set forth in statute and local procurement procedures.

FAYETTE COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 30, 2005  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Budget

The PVA office budget document governs the use of all PVA office funds. The PVA office shall submit for approval by June 1 of each year a budget request document to the Finance and Administration Cabinet, PVA Administrative Support Branch. The PVA budget request document categorizes the estimated fund sources and expenditures for the new fiscal year. The Finance and Administration Cabinet shall return to the PVA a budget approval by July 1 of the new fiscal year.

The PVA office is required to amend the original approved budget document when expenditures in an account series exceed the budgeted amount. Over spending in a particular expense category should be noted in the PVA office records but an official budget amendment is not necessary. Changes in fund source categories should be amended to reflect major fund source differences and be resubmitted. All budget amendments should be requested upon recognition of the actual expenditure or fund source changes. All amendment requests must be received before the end of the fiscal year and must reflect current fiscal year expenditures or incurred contracts for expenditures and must include the reason for the amendment.

Note 2. Employee Retirement System

The PVA participates in the Kentucky Employees Retirement System (KERS). KERS is a multiple-employer cost sharing defined benefit pension plan that covers all regular full-time members employed in non-hazardous positions. To be eligible for the KERS, an employee must work an average of 100 or more hours per calendar month. The plan provides for retirement, disability, and death benefits to plan members. Permanent full-time employees will automatically contribute to the retirement system. The employee's monthly contribution to the KERS is five percent (5%) of base salary for non-hazardous positions. Contributions are deducted automatically from paychecks. As of July 1, 2004, the state contributes 5.89% of the employee's base salary toward the retirement pension; the combined monies set aside as reserves for an employee's retirement benefits equal 10.89% of actual gross earnings. Retirement funds are not taxable until the employee receives the retirement benefits.

Benefits fully vest upon reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

FAYETTE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 June 30, 2005  
 (Continued)

Note 3. Deposits

The PVA maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the PVA and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the PVA's deposit may not be returned to it. The PVA does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

As of November 30, 2004 there was no collateral pledged to secure the public funds of the PVA. In addition, the PVA did not have a written agreement with the depository institution securing the PVA's interest in the collateral.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>57,066</u>
Total	<u>\$ 157,066</u>

Note 4: Adjustments

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance are presented on cash basis. No adjustments are needed.

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COMMENTS AND RECOMMENDATIONS



FAYETTE COUNTY  
RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
COMMENTS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS:

The PVA Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On November 30, 2004, \$57,066 of the PVA's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The PVA should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the PVA enter into a written agreement with the depository institution to secure the PVA's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*PVA's Response:*

*Whitaker Bank advised that securities had been pledged. In a letter to the auditor dated August 12, 2005, the bank advised that they found there were not any pledges available and stated that it in no way was faulted Ms. True. Further, they stated that it is the practice of Whitaker Bank to always pledge securities for public funds. Since that date, Whitaker bank has forwarded Pledged Security Release Notifications.*

PVA Should Expend Monies For Allowable Expenditures Only

During our audit we found the following expenditures that are disallowed:

<u>Payee</u>	<u>Amount</u>	<u>Item</u>
EGI*Go Promotions	\$ 258.27	Personalized Neon Pencils
National Pen Corp.	\$ 491.61	Personalized Blue Holographic Pens
	<u>\$ 749.88</u>	

Technical Audit Bulletin 93-001, Section 3 enumerates thirteen categories of expenditures that are not allowable and Technical Audit Bulletin 93-002 states the expenditure of any funds from an official bank account for non-official or personal expenses should be reported. Therefore, expenditures that are for personal or political advertising and expenditures that are not for official duties of the office or required for the PVA office are disallowed. We recommend the PVA deposit personal funds in the amount of \$749.88 into the PVA's official bank account in order to reimburse the official account for these disallowed expenditures.

FAYETTE COUNTY  
RENEE TRUE, PROPERTY VALUATION ADMINISTRATOR  
COMMENTS AND RECOMMENDATIONS  
For the Fiscal Year Ended June 30, 2005  
(Continued)

PVA Should Expend Monies For Allowable Expenditures Only (Continued)

*PVA's Response:*

*The pencils and pens purchased from PVA funds are for official purposes only, not for personal or political advertising. The information on the pens and pencils is the same information that is on a business card. Inexpensive pens and pencils were purchased to eliminate the public from taking staff pens and pencils. They further provide the public contact information for the PVA office. Auditors mentioned that there was a problem with the PVA's name being on the pens. The PVA's name is on all materials that comes from the PVA office and is on the website. The Fayette County PVA is accountable to the public and the public has a right to know who their PVA is. The PVA purchased from campaign funds the pens that are used for campaign purposes. Enclosed is a sample of both pens.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The PVA Should Require All Employees To Maintain Timesheets

During our audit, we determined the employees of the PVA's office did not prepare, sign, or submit timesheets. PVA employees only submitted leave requests. We recommend the PVA require all employees to maintain timesheets. These timesheets should be prepared and signed by the employee and reviewed, approved, and signed by their supervisor before being submitted for payroll processing.

*PVA's Response:*

*The Fayette County PVA follows the DOR requirements for time keeping. Currently, employees are required to complete a calendar whenever their time deviates from the required 8:00 to 4:30 work schedule. Employees must also sign and submit a Leave Authorization before taking off scheduled leave. Supervisors review, approve and sign off on any deviations from the required work schedule.*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Robbie Rudolph, Secretary, Finance and Administration Cabinet  
The Honorable Renee True  
Fayette County Property Valuation Administrator  
Lexington, KY 40507

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - modified cash basis of the Fayette County Property Valuation Administrator (PVA) for the fiscal year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. The PVA's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fayette County PVA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The PVA Should Require All Employees To Maintain Timesheets

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fayette County PVA's financial statement for the fiscal year ended June 30, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The PVA Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- PVA Should Expend Monies For Allowable Expenditures Only

This report is intended solely for the use of the Fayette County PVA and the Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
August 31, 2005



